

## Message Text

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PASS ASSISTANT SECRETARY ENDERS

FOLLOWING REPEAT MANAGUA 1045 ACTION STATE INFO CARACAS  
GUATEMALA MEXICO SAN JOSE SAN SALVADOR TEGUCIGALPA MAR 15

QUOTE

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E. O. 11652: N/A

TAGS: ETRD, EAGR, NU

SUBJECT: COFFEE: NICARAGUAN PRODUCERS PROPOSE COFFEE

EXPORT FINANCING SCHEME TO GON

REF: SAN SALVADOR 0703

SUMMARY: EXPOSURE TO NEGATIVE VIEWS ON NICARAGUAN COFFEE  
POLICY AT FEBRUARY WORLD COFFEE PRODUCERS MEETING IN  
EL SALVADOR AND LOSSES BEING SUFFERED AT PRESENT WORLD MARKET  
PRICES HAVE SOFTENED ADAMANT POSITION AGAINST ANY KIND OF  
RETENTION SCHEME BY NICARAGUAN COFFEE PRODUCERS. THE  
COFFEE PRODUCERS COOPERATIVE HAS NOW PROPOSED TO GON  
ACCEPTANCE OF U.S. \$40 MILLION COMMERCIAL LOAN FROM FRENCH  
SOURCES TO PURCHASE COFFEE FOR RESALE IN MORE ORDERLY  
MARKETING SYSTEM. END SUMMARY.

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1. PRESIDENT OF SOCIEDAD COOPERATIVA DE CAFETERAS, FABIO GALLO, TOLD EMBOFF THAT NICARAGUAN PRODUCERS WERE TAKEN ABACK BY ATTITUDE OF OTHER PRODUCERS ON NICARAGUAN COFFEE POLICIES. HE SAID, E.G., THAT BRAZILIANS FELT NICARAGUAN SALE OFFERES WERE DEPRESSING WORLD PRICES IN GENERAL. AGAINST PROTESTATIONS THAT NICARAGUA WAS A MARGINAL PRODUCERS AND HAD NO REAL WEIGHT IN MARKET, HE WAS TOLD THAT ANY OFFER BELOW MARKET TENDED TO SET PRICES FOR ALL OTHER TRANSACTIONS AND THAT NICARAGUAN COFFEE WAS LEADING THE DOWNWARD PRICE TREND. GALLO IS CONCERNED THAT OTHER PRODUCERS MAY CUT NICARAGUA OUT OF ANY BENEFITS UNDER ANY NEW INTERNATIONAL COFFEE AGREEMENT.

2. PRESENT SITUATION OF COFFEE PRODUCERS HERE FORCE THEM TO ACCEPT ANY PRICE OFFERED, ACCORDING TO GALLO. MOST OF THEM HAVE TO SELL TO COVER DEBTS AND INDIVIDUALLY ARE SO SMALL THAT NO ONE GROWER CAN AFFECT THE SUPPLY OFFERED.

3. THE COOPERATIVE HAS DEVELOPED ITS OWN SCHEME FOR MORE ORDERLY MARKETING. THROUGH INTERMEDIATION OF WOLFGANG OTTO SCHAEFFER OF GUATEMALA, WHOM GALLO DESCRIBED AS A REPUTABLE FINANCIAL GO-BETWEEN, AN OFFER OF A LOAN OF U.S. \$40 MILLION HAS BEEN ARRANGED WITH FRENCH SOURCES FOR TEN YEARS AT A RATE AROUND 9 TO 9 1/2 PERCENT. IT WOULD REQUIRE A GOVERNMENT GUARANTEE.

4. IF THE GON ACCEPTS THE COOPERATIVE'S PROPOSAL, FUNDS WOULD BE USED BY NATIONAL AGENCY--INFONAC, INCEI, OR NATIONAL BANK--TO PURCHASE ENTIRE COFFEE CROP PAYING IN CASH ABOUT 80 PERCENT OF WORLD PRICE WITH REMAINDER BASED ON ACTUAL PRICES RECEIVED ON WORLD MARKET. COFFEE COULD BE ORDERLY MARKETED THROUGHOUT YEAR REMOVING THE FORCED-SALE ASPECT OF PRESENT SYSTEM. IT WOULD ALSO ALLOW NICARAGUA TO PARTICIPATE IN INTERNATIONAL RETENTION SYSTEM IF THIS BECOMES PART OF A NEW INTERNATIONAL AGREEMENT.

5. PRODUCERS OPPOSITION IN PAST TO RETENTION SCHEMES HAS BEEN REQUIREMENT THAT GROWERS BEAR THE DIRECT COST AND DISCRIMINATION WHICH HAD BEEN PRACTICED WHERE SOME INFLUENTIAL GROWERS HAD BEEN ALLOWED TO SELL ENTIRE CROPS WHILE LESS-INFLUENTIAL WERE STUCK WITH DISPROPORTIONATE SHARE

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OF RETENTION COFFEE. IF GOVERNMENT AGENCY PURCHASED ALL COFFEE THIS INEQUITY WOULD NOT BE POSSIBLE.

6. COMMENT: SIGNIFICANCE OF PROPOSAL IS THAT CONGRUENCE OF GOVERNMENT AND GROWERS ON COFFEE POLICY HAS DIMINISHED. WE DO NOT KNOW WHETHER GON WILL BE SYMPATHETIC, ESPECIALLY TO IDEA OF GOVERNMENT GUARANTEED COMMERCIAL BORROWING WHICH IS AN ESSENTIAL FEATURE OF PROPOSAL. WE

SEE A DISTINCTION, HOWEVER, IN FOREIGN BORROWING FOR  
IMPROVING EXPORT MARKETING FROM SOME PREVIOUS FOREIGN  
COMMERCIAL BORROWING FOR INTERNAL USES. SHELTON UNQUOTE ROBINSON

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